Currents

- THE WEST'S EXPORTS TO CHINA AND INDIA
- BUILDING PRODUCT INDUSTRY IN MB
- THE TAX REFORM CHORE

CanadaWest FOUNDATION

Western Canada's Monthly Economic Bulletin

Vol. 2010, No. 7

Monthly Highlights

The employment situation improved steadily across the West in June compared to May. The job creation pace reached 0.3% in BC and Alberta (for gains of 6,400 and 5,700 jobs, respectively) and 0.4% in Saskatchewan (+2,100 jobs). The employment gain in Manitoba was more modest (+0.05%, or 300 jobs) but a decline in the size of the labour force brought the province's unemployment rate down to 5.3%, the lowest in the country. Over the last year or so, Manitoba and Saskatchewan have been exchanging positions as Canada's unemployment rate champions.

In May, consumer prices rose in all provinces compared to twelve months earlier. In the West, consumer inflation was at or below the national average rate of 1.4%. Despite increases in gasoline prices, Manitoba and BC posted the region's lowest inflation rates (0.5% and 0.6% respectively).

In April, retail sales were down in all provinces compared to March. Sales in Saskatchewan declined the most in the West (-2.3%). Manitoba's retail sales fell by 1.8% after eight consecutive monthly increases, the longest streak among all provinces. Still in April, wholesale sales declined across the West except in Manitoba, where they edged up 0.2%.

Manufacturing sales dropped 4.5% in Manitoba, the steepest decline among all provinces in April, reflecting severe losses in primary metals (-16.0%) and in electrical equipment, appliances and components (-67.2%) which were somewhat offset by a gain in chemicals (+19.5%).

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,299	2,000	528	621	17,190	June
% change	0.3	0.3	0.4	0.0	0.5	
Unemployment rate (%)	7.8	6.7	5.5	5.3	7.9	June
change in percentage points	0.3	0.1	0.5	-0.4	-0.2	
Participation rate (%)	66.0	73.3	70.6	70.1	67.4	June
Average weekly earnings ($)	817.85	989.93	835.39	783.62	845.25	April
% change	0.9	-0.3	0.0	0.9	0.5	
Inflation						
Consumer Price Index (% change)*	0.6	1.1	1.4	0.5	1.4	May
Economic Activity						
Housing starts (000s)**	24.9	28.8	4.4	4.6	195.3	May
% change	-10.8	-19.1	-4.3	21.1	-5.1	
Retail trade ($M)	4,841	4,890	1,226	1,293	36,154	April
% change	-0.7	-1.8	-2.3	-1.8	-2.0	
Wholesale trade ($M)	3,873	4,911	1,594	1,146	44,048	April
% change	-3.1	-1.6	-3.1	0.2	-0.3	
Manufacturing sales ($M)	2,928	4,979	1,002	1,138	44,506	April
% change	-2.5	-2.7	0.6	-4.5	0.2	

** Compared to same month in the previous year. ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels). Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.*

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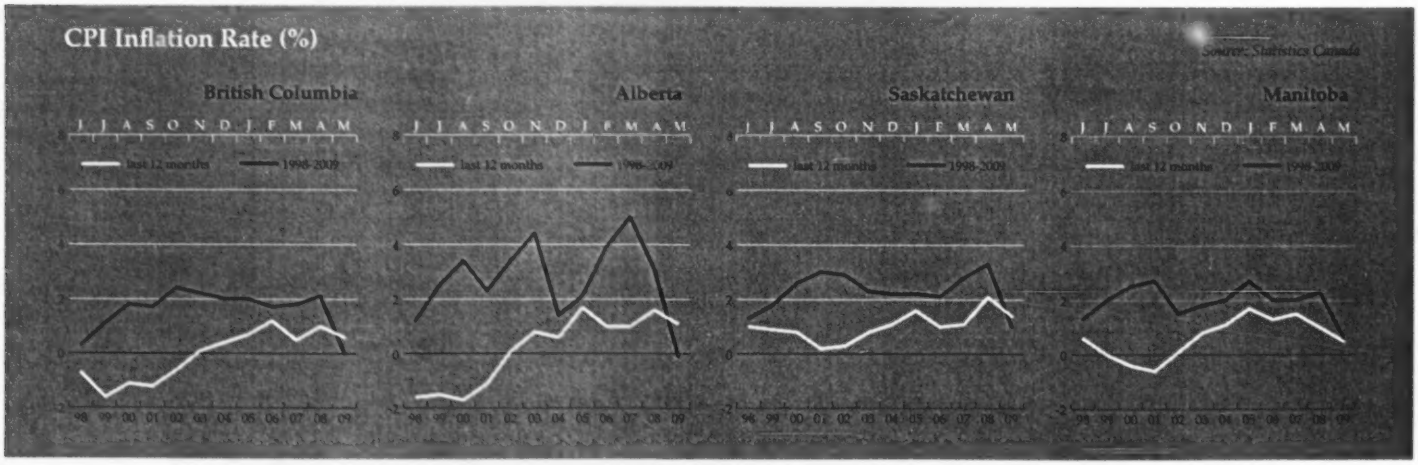


Monthly Feature

To the China and India Markets We Go

In May, under the auspices of the recently signed New West Partnership, the premiers of BC, Alberta and Saskatchewan were in Shanghai to open a joint trade office. This event exemplified remarkably well the West's growing trade relation with China. With their populations of 1.3 and 1.2 billion people respectively, China and India represent huge export markets. As the Chinese and Indian economies expand and develop their own brand-new middle classes, many countries are lining up, eager to benefit from the bonanza. Canada is among these nations, and for a number of reasons (including basic geography), the West is well-positioned within Canada to gain from this.

While the United States remains by far Canada's most important export market with a 75% share, China has gradually become a major trading partner for Canada and the West. China now ranks as the second most important trading partner for three of the four western provinces, BC being the exception, with Japan still ahead of China for now. In 2009, the West exported $7.0 billion worth of merchandise to China (see Figure below). BC and Alberta were each the source of about $2.6 billion, followed by Saskatchewan ($1.1 billion) and Manitoba ($0.6 billion).

The numbers are impressive in terms of dollars, but the growth is even more spectacular. The West's exports to China are up by $4.5 billion (or 181%) in 2009 compared to 2001, far ahead of the $2.4 billion gain in the rest of the country. The primary sector is the star of this success story, with significant growth in exports of canola oil and seeds, nickel, wood pulp and coal. Potash exports are also part of the picture, although 2009 was an exceptionally bad year due to a severe drop in world demand.

Exports to India are another story altogether, both in terms of what we export and how that country ranks among our trading partners. India is either the 20th or 21st most important export market for BC, Alberta and Manitoba, but it is Saskatchewan's third top customer thanks to massive exports of dried legumes ($0.5 billion) and potash ($0.4 billion), which combined represented virtually all of Saskatchewan's $1.0 billion exports to India in 2009.

All this makes Saskatchewan the most important export supplier to India in Canada. The rest of the West is slowly gaining ground in India, but the value of exports from those provinces pales compared to Saskatchewan's results (and is better expressed in millions of dollars). Alberta's exports are the highest with $122 million, followed by BC at $77 million and Manitoba at $42 million. So far, Alberta shows the most solid growth with increasing shipments of ethylene polymers and other petroleum products.

Trade experts tend to lump China and India together when discussing export prospects for Canada in general and the West more specifically. As we just saw, while of similar size these two markets are quite different from each other, and so is each western province's trade relation with them. Furthermore, Canada's export relation with China is influenced by the import side: we import four dollars of merchandise for each dollar we export over there. In India's case, the value of our exports and imports is nearly the same.

Did you know?

- Merchandise exports represent 85% of Canada's exports. The remaining 15% are exports of services such as professional services and transportation.

- A country's trade surplus is the difference between its exports (+) and its imports (-). A positive trade surplus makes the gross domestic product (GDP) increase, contributing to economic growth.

- Canada maintained a merchandise trade surplus from 1994 to 2008 inclusively. This sequence was interrupted by last year's recession, which resulted in a steep decline in our exports to the US. Our imports declined as well, but less than our exports.

- In 2009, the West was the source of nearly two-thirds (64%) of Canada's international merchandise exports. This ratio is much higher than the West's share of the country's population (31%) or gross domestic product (38%).

Exports to China and India ($ billion)

Source: Statistics Canada

	China			India		
	2001	2009	% change	2001	2009	% change
BC	0.768	2.574	235	0.118	0.077	-35
AB	0.873	2.656	204	0.056	0.122	116
SK	0.687	1.132	65	0.238	0.972	309
MB	0.168	0.647	285	0.034	0.042	23
West	2.496	7.010	181	0.446	1.212	172
Rest of Canada	1.482	3.924	165	0.221	0.834	277
All of Canada	3.979	10.933	175	0.667	2.046	207

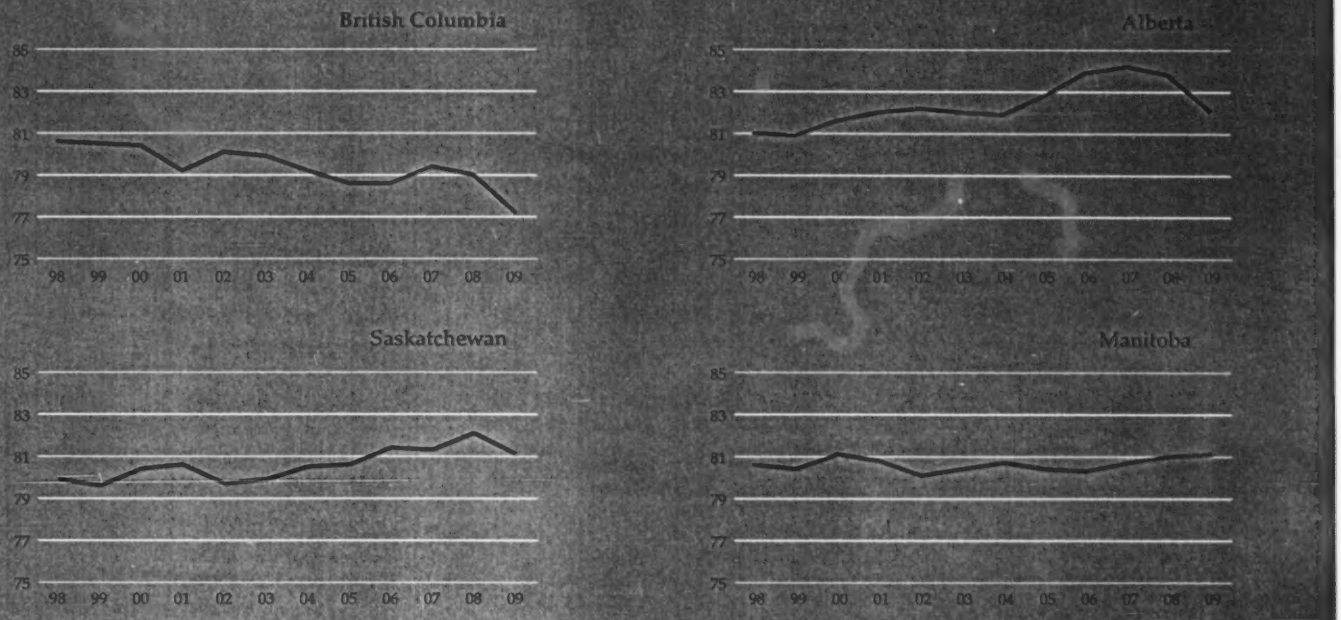
Notes: All exports are domestic—as such they exclude re-exports (which are imports that are subsequently exported without incurring a transformation).

BEHIND THE NUMBERS

Part-time employment is often a willful choice by workers for a number of individual reasons. However, generally speaking, full-time jobs are considered "better" jobs than part-time ones. During and right after recessions, jobs tend to shift more toward part-time jobs than during prosperous times. One reason for this is that during periods of high unemployment, people take part-time jobs even if they would prefer a full-time one.

As was to be expected, in BC and Alberta the number of full-time jobs as a share of total employment declined in 2009 due to a loss in the total number of jobs. However, the 2009 full time job ratio also declined in Saskatchewan despite an overall job gain of 1.5%. Against the norm, there appears to have been relatively stronger growth in part-time jobs in Saskatchewan perhaps due to historic demographic expansion (over the last three years Saskatchewan's population has grown by 3.8%) and an uncertain global economic outlook.

Full-Time Employment as a Share of Total Employment (%)



Source: Statistics Canada

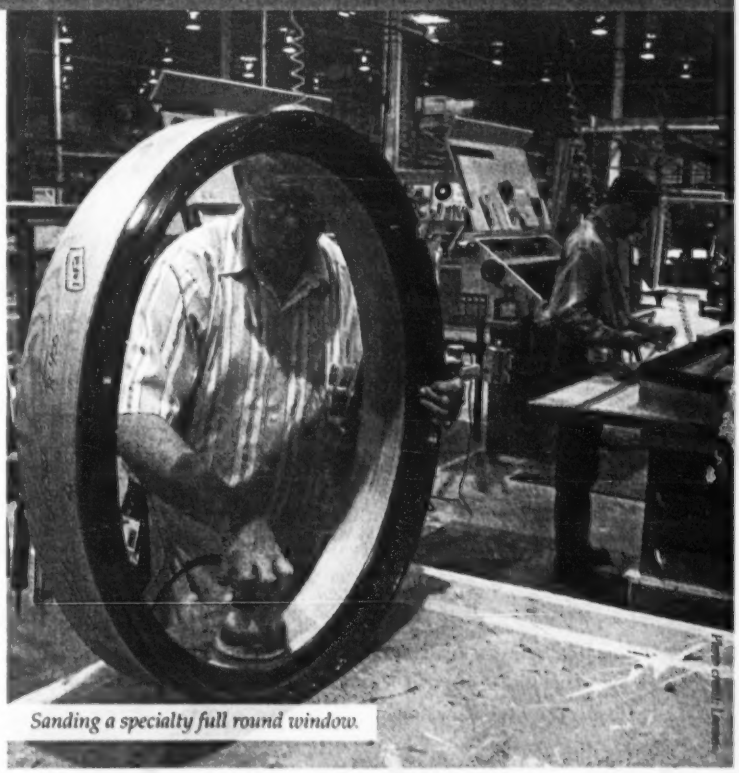
Industry Spotlight: Manitoba

Building Products

Manitoba's building products industry is an important component of the province's manufacturing base. With nearly $1.0 billion in annual revenue, it directly employs a workforce of about 9,000 persons. The industry is export oriented—the majority of products are shipped to the United States, Europe and Japan. The industry's converted wood products are used in residential and commercial construction and include items as varied as windows, doors, RTM (ready-to-move) buildings and building frames.

The industry is gradually adopting environment-friendly approaches and is producing an increasing number of products which are compliant with LEED, an internationally recognized green building certification system. As such, it is set to benefit from greater demand for more energy efficient building products in Canada and internationally.

Some of Manitoba's building product makers are among the largest in Canada. This list includes Kitchen Craft Cabinetry of Winnipeg and Loewen Windows of Steinbach.



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opinion

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Time for a Tax Conversation

There are many things in life that we have to do even if they're not particularly enjoyable, because we simply don't have the choice. Tax reform is one of those chores. But what makes it so unpleasant? I will attempt an answer: no one likes paying taxes, and that aversion gets carried over to anything that involves taxes, even a simple discussion about them. This is why a lot of people are reluctant, sometimes nearly hostile to any type of review or discussion of the tax system under which they live. They apparently forget that taxes are the lifeblood of governments: without them, there would be no public services for the population, many of them essential.

Personally, discussions about taxes don't make me cringe. It's not as if the mere mention of their name will make them go up. In fact, it is when we do not hold some public debate about tax policy that things go bad. We end up with a tax system made up of components that are designed either by knee-jerk reaction ("A deficit? Quick! Raise a tax, any tax!") or through a business-as-usual approach ("Better let sleeping dogs/taxpayers lie.") In the long run, any tax system that is built this way will become highly inefficient. Ask yourself the following question: if you had to build a tax system from scratch, would it look like the one we currently have? I thought not.

By the way, reviewing out tax system is more than just a question of tax rate levels. As my colleague Casey Vander Ploeg mentioned in his October 2009 report entitled *Ready for Takeoff: Bold Tax Policy Moves for a More Competitive Western Canada*, "it is the type of taxes in play that are critically important—who we tax, what we tax, how we tax, how much we tax." This means talking about concepts such as equity, tax base breadth or transparency. This is not as technical as it looks: most of these are simple enough for the general public, not just specialists, to take part in the debate.

I am not the only one who feels that tax policy reviews are a good idea. Recently, the Saskatchewan Chamber of Commerce and some provincial associations of tax professionals decided to sponsor the Canada West Foundation to conduct an exhaustive review of Saskatchewan's tax system, including provincial taxes, oil and gas royalties, and municipal property taxes in Regina and Saskatoon. This will be the first such project since 1965. A lot has changed in Saskatchewan since then, and it appears that the project's sponsors think that it is time to have a frank, province-wide discussion and remove some of the cobwebs in the system. What a great idea.

Bringing tax policy and tax reform into the open makes taxes less of a hot political potato. It gets taxpayers (individuals and corporations) involved in deciding how they are going to pay for their government services. It makes people realize that governments need to make choices in balancing services they deliver within revenue constraints. To be effective, tax reform should bring together stakeholders from different walks of life in order to balance diverse priorities and interests in the community.

So, good for Saskatchewan, but I would not stop here. The other provinces should go through this exercise as well and benefit from Saskatchewan's experience. If one province tries this exercise and it appears that no one got mortally wounded, the other provinces should follow suit while the political climate is suitable for such a process.

This is important stuff. Continuously dodging the tax bullet is counter-productive. It results in a tax system that is out of touch with fiscal and economic needs, making one's jurisdiction less and less competitive over time. That is a pretty high price to be paid simply to avoid an unpleasant chore. ■